

Foundation Formula

1988-1997

Foundation Formula

- State set a base property tax rate
- State set a foundation amount – the amount needed to provide a minimum quality education
- If a town could not raise the foundation amount on the base tax rate, the State provided a grant, up to the foundation amount

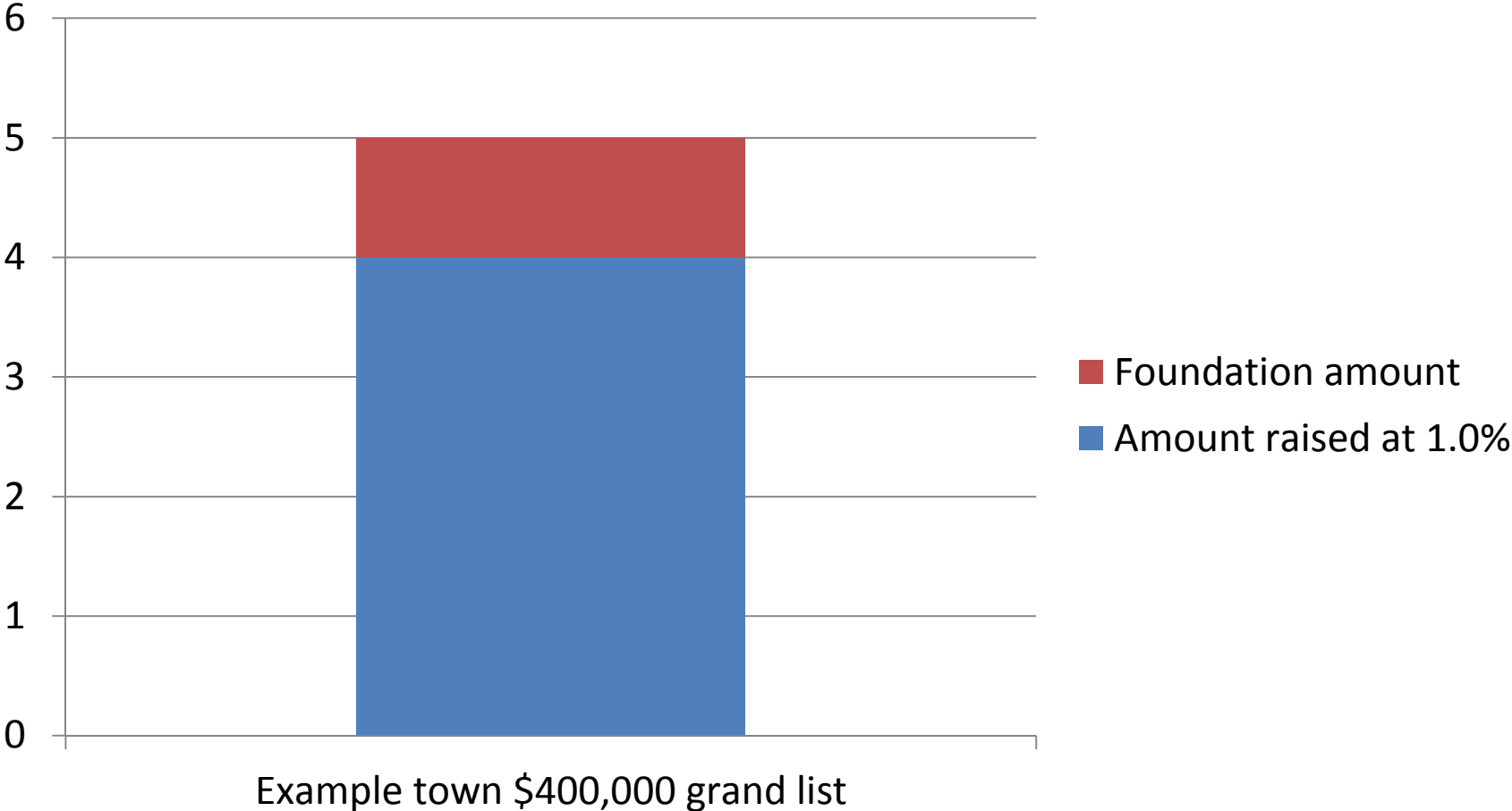
Example town

- Foundation amount is \$5,000
- Base rate is \$1.00 per \$100 of assessed value (or 1%)
- Town grand list is only \$400,000, so on a 1% tax rate, it can raise \$4,000 per pupil
- Under the foundation plan, the State gives a grant of \$1000 a student to bring that town up to \$5000 in per pupil spending.

Example town

Foundation amount = \$5000

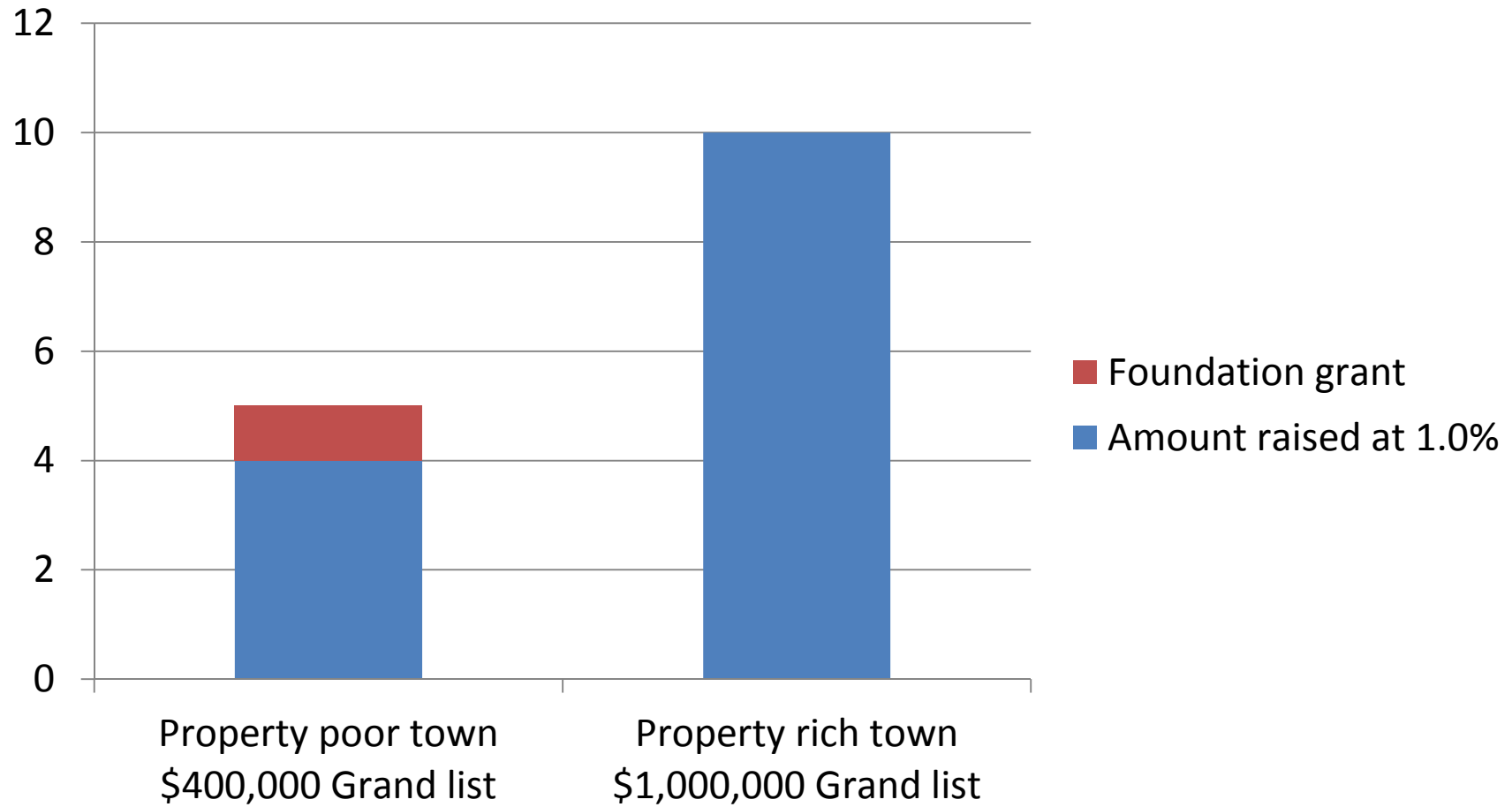
Base rate = 1.0%



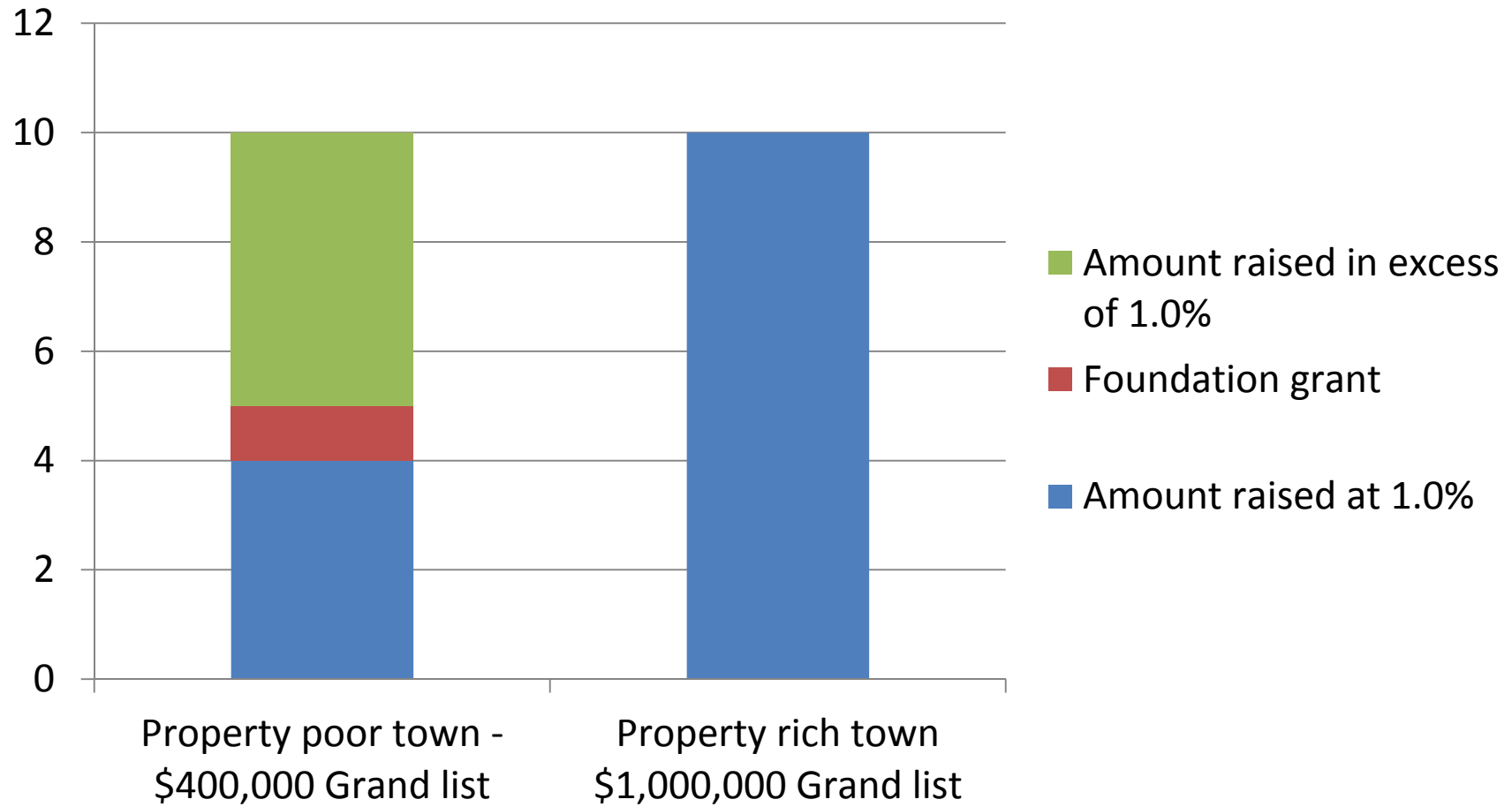
Equity example

- Two towns – one with lots of property wealth, one with little property wealth
- Both towns want to spend \$10,000 per pupil
- Foundation amount is \$5000 and base rate is 1.00%

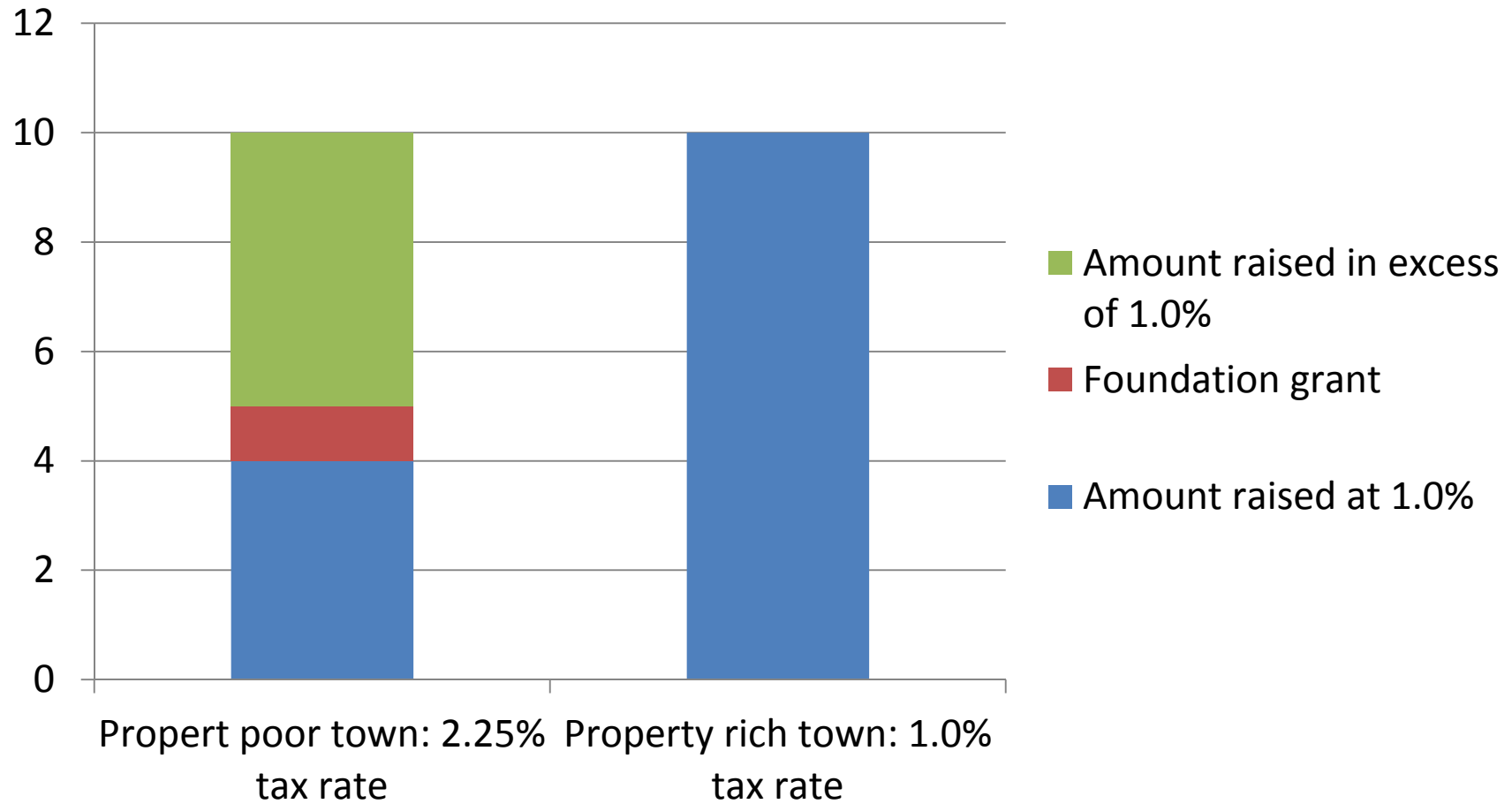
Foundation formula



Equity problem



Equity problem



\$100,000 houses

- A \$100,000 house in the property poor town has a tax rate of 2.25%, and pays \$2250 in taxes
- A \$100,000 house in the property rich town has a tax rate of 1.0% and pays \$1000 in taxes
- Both towns spend \$10,000 per pupil

Act 60 - 1997

- Created a uniform tax rate across State that supported a minimum block grant
- Any spending above the block grant resulted in a higher tax rate for that town
- Revenues raised went into a State-level sharing pool to be redistributed based on spending

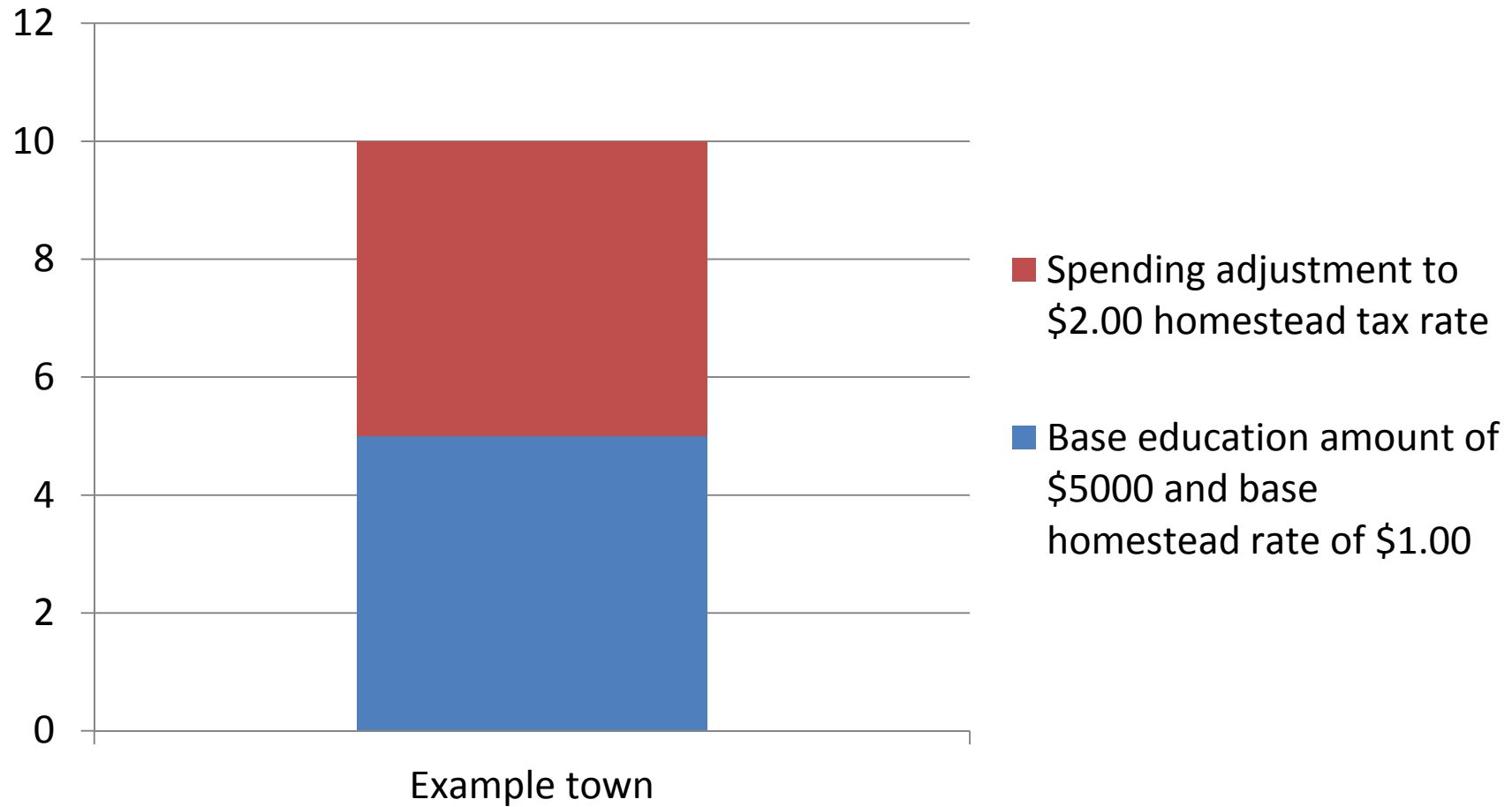
Act 68 - 2003

- Split the grand list into homestead and nonresidential property
- Created a homestead property tax rate that varied on spending
- Created a nonresidential tax rate that was uniform across the State

Effect of Act 60/68

- The effect of Act 60/68 was to equalize rates – two towns with same per pupil spending would have the same homestead tax rate
- A base education amount and a base homestead rate are set in statute
- If a town elects to spend above the base education amount, its tax rate rises proportionally above the base homestead rate

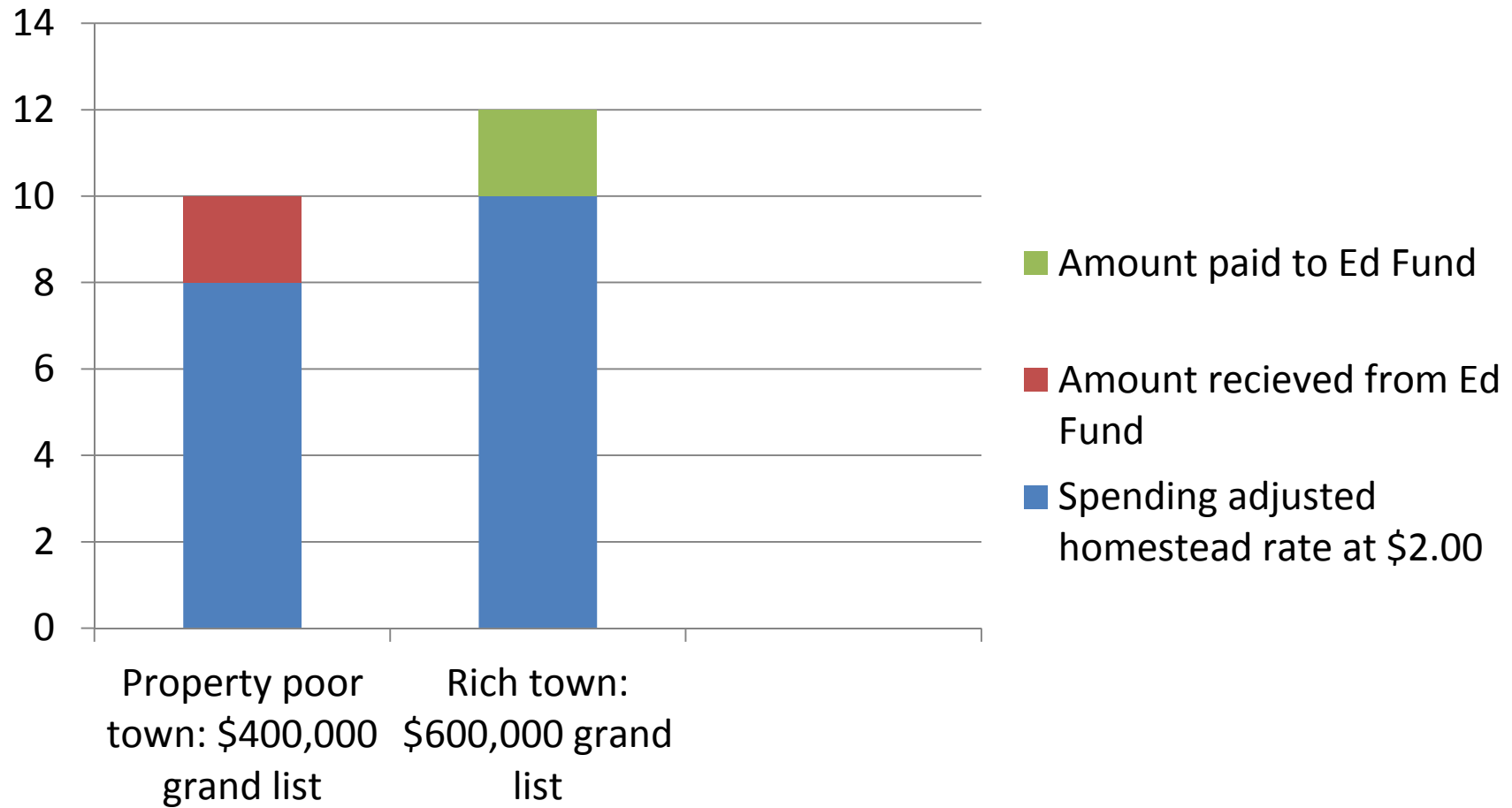
Setting the Act 60/68 variable homestead tax rate



Equalization is the result

- An Example Town homestead owner, with a house valued at \$100,000, will pay \$2,000 in property tax
- ***This is true no matter what town the homestead owner is in***
- Any town with \$10,000 per pupil spending will have a tax rate of \$2.00, and a homeowner in that town with a \$100,000 home will pay \$2,000 in property taxes

Contribution to education spending



Act 60/68 has provided more equity

An Evaluation of Vermont's Education Financing System

Lawrence O. Picus and Associates report from 2012:

- *Our overall finding is that the current funding system meets the goals established by the Court and Acts 60 and 68. The system established through that legislation provides that each town determines the budget for its schools on an annual basis and, through a combination of residential and non-residential property taxes and other state sources of revenue, funds those schools so that each town has access to the same level of funding for a given tax rate. Moreover, the design and operation of the system has resulted in relatively little disparity in per pupil education spending related to property wealth and household income, created substantial equality in the level of per pupil spending across the state's 277 school districts, and has reduced the variation in student achievement in reading and mathematics across schools, as measured by NECAP tests.*